

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking Concerning
Energy Efficiency Rolling Portfolios, Policies
Programs, Evaluation, and Related Issues

Rulemaking 13-11-005
(Filed November 14, 2013)

**OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC
COMPANY (U 39-M) ON THE ADMINISTRATIVE LAW JUDGE'S RULING
SEEKING COMMENTS ON THREE-PRONG TEST**

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I. INTRODUCTION

Pacific Gas and Electric Company (PG&E) respectfully submits these opening comments on the *Administrative Law Judge’s Ruling Seeking Comments on Three-Prong Test*, dated June 25, 2018 (“Ruling”). PG&E appreciates the opportunity to comment and recommends the California Public Utilities Commission (“Commission”) simplify and clarify the Three-Prong Test by adopting the following principles:

- Create pass/fail results solely from outputs of the energy efficiency Cost Effectiveness Tool (CET);
 - Set baselines for fuel-substitution measures consistently with other same-fuel measures; and
 - Clarify funding sources by adopting a rule of “receiving fuel pays.”
- Each of these recommendations is discussed in further detail below.

II. DISCUSSION

A. PG&E Recommends that the Commission Create Pass/Fail Results Solely from Outputs of the Energy Efficiency Cost Effectiveness Tool (CET)

The Three-Prong Test requires fuel-substitution measures to achieve the following objectives: (1) save energy; (2) be cost-effective; and (3) not harm the environment. All three of these objectives are reasonable and were prudent when this requirement was originally adopted in the 1990s.^{1/} However, the cost-effectiveness framework has evolved. The current framework

1/ D.92-10-020, pp. 6-10, 15-16; D.92-12-050 pp. 7-10, 12-13.

incorporates the intent of the energy savings and environmental prongs if the cost-effectiveness prong is preserved as the primary test for fuel substitution programs.

The Avoided Cost Calculator (ACC), which the energy efficiency Cost-Effectiveness Tool (CET) is based on, uses a source energy savings calculation and includes pricing for CO₂ emissions. The ACC model is also the required avoided cost tool for EE programs^{2/} and is required to be updated annually, making it less likely to fall out of date.^{3/} By using the CET to inform fuel-substitution eligibility, the need to test the two other prongs is reduced. This would simplify the calculations used in the test and increase both its repeatability and accuracy.

Source Energy Savings: As mentioned above, the CET's use of a source energy savings calculation eliminates the need for testing of the energy-savings prong if the cost-effectiveness prong is preserved. Furthermore, the CET remains the best publicly available tool to address source energy savings through its use of hourly heat rate granularity. Since greater levels of renewables on the electric grid have led to greater variation in hourly heat rates than in the past, hourly heat rate granularity allows the CET to accurately identify measures that appear to save energy when tested using annual averages, but do not once tested on an hourly basis. Hourly heat rate granularity should be maintained in any version of the fuel-substitution test.

Environmental Impacts: The addition of greenhouse gas emissions avoided costs into the ACC model in the mid-2000s also reduces the need for additional testing of the environmental impacts prong. If the Commission chooses to keep the environmental prong, the CET should be used to calculate the emissions values used in evaluating the third prong. The environmental prong may warrant consideration of other emissions, pollutants, and environmental impacts that the CET does not account for. To the extent there is concern about this discrepancy, PG&E recommends addressing those concerns in the IDER proceeding as part of the avoided cost update process instead of in the EE proceeding via adjustments to the fuel-substitution test.

2/ See ordering paragraph 1h from D.16-06-007: "A single avoided cost model should apply to all distributed energy resource proceedings (including but not limited to the proceedings listed in footnote 6 of this decision, and their successors)."

3/ D.16-06-007, p. 6.

B. PG&E Recommends that the Commission Set Baselines for Fuel-Substitution Measures Consistently with Other Same-Fuel Measures

To remain consistent with same-fuel measures, PG&E recommends that fuel substitution measures follow the same baseline rules that have been discussed and litigated in the energy efficiency proceeding.^{4/} This would ensure that benefits and costs are calculated consistently across the portfolio; fuel-substitution measures would not have any inherent advantage or disadvantage when compared against same-fuel measures.

A corollary of this recommendation is that “greenfield” new construction measures (cases where no building or site exists) would generally not be subject to a fuel-substitution test, but dual-fuel expansions, renovations, and additions would. PG&E agrees that this is an appropriate way to handle these types of new construction.

C. PG&E Recommends that the Commission Clarify Funding Sources by Adopting a Rule of “Receiving Fuel Pays”

One of the original purposes of the Three-Prong Test was to “mitigate the risk of ‘fuel wars’ between utilities in Southern California as energy efficiency programs were ramping up.”^{5/} In that spirit, PG&E suggests that the ratepayers of the receiving fuel should fund those fuel-substitution projects – that is, measures that replace gas in favor of electricity would be funded by electric ratepayers, and vice versa. This is consistent with current rules; PG&E recommends the Commission adopt this approach.

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4/ See, e.g., D.16-08-019 and Resolution E-4818.

5/ Motion of the Natural Resources Defense Council (NRDC), Sierra Club, and the California Energy Efficiency Industry Council (The Council) Seeking Review and Modification of the Three-Prong Fuel Substitution Test, filed June 8, 2017. Available at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M191/K912/191912103.PDF>

III. CONCLUSION

PG&E appreciates the opportunity to comment on the Ruling and hopes the recommendations assist the Commission in amending and implementing the Three-Prong Test in this proceeding.

Respectfully Submitted,

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